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# Saudi Arabia

# Grain and Feed

# Saudi Arabia Reduces Barley Import Subsidy

# 2004

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**Report Highlights:**
In early June this year, the Saudi Government issued a decree to fix the government subsidy on imported barley to Saudi Riyals (SR) 150 or $40 per metric ton (mt) regardless of international barley prices. The decision has allowed importers to adjust their wholesale/retail prices based on their cost and competition factors.

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**Saudi Arabian Government Reduces Barley Import Subsidy**

Early in June 2004, local barley importers received a letter from the Ministry of Commerce & Industry (MOCI) informing them of resolution No. 13B/14942 issued on May 14, 2004. The decree fixed the government subsidy on imported barley to Saudi Riyals (SR) 150 or $40 per metric ton (mt) regardless of international barley prices. The new barley subsidy is a sharp change in the June 2000 barley subsidy regime that instructed barley importers to charge $4.80 per 50 kg or $96 per metric ton at importers bagging facilities. The maximum retail price to end-users was set at $5.33) per 50 kg or $106.67 per metric ton regardless of the international barley price. In return, the government paid 5 percent of the value of the C&F prices as a profit for barley imported and sold at the government set price and $14.40 per metric ton to cover expenses such L/C, unloading and transporting barley from sea port to bagging plants.

The change in the barley subsidy policy is the direct result of its negative impact on the national economy. When the C&F barley price reached $200 per mt (November 2003-March 2004), the government paid a subsidy of $128.40 per metric ton (the difference between government purchase price and the wholesale price of $96 per mt.) Given the Kingdom's monthly imports of more than 650,000 metric tons of barley, the government monthly subsidy on imported barley was estimated at about $90 million when barley price reached $200 per metric ton. Barley importers have been informed that purchases made prior to the change in the subsidy scheme, estimated at about one million metric tons and reportedly purchased at $175-$185 per mt, will receive the subsidy rate paid under the old subsidy system.

The Saudi government's fixed subsidy payment on animal feed is not a new policy. It has been paying for more than two decades a rebate of SR 160 ($42.67) per metric ton toward the purchase of imported yellow corn and soybean meal. The subsidy is paid directly to the importer. The corn subsidy is based on U.S. grain standards for number 2 yellow corn. Under the fixed subsidy regime, importers are free to adjust their wholesale/retail prices based on their cost and competition factors. According to barley traders, the wholesale price for 50 kg of barley increased from $4.80 to $5.87 (an increase of 23 percent) in the past two weeks to reflect the new barley subsidy.

Since the government halted its subsidy to domestic barley producers earlier this year, traditional livestock farmers depend heavily on imported barley to feed their livestock. In June 2000, the Saudi Government installed the previous barley subsidy following an outcry by traditional livestock farmers who were unable to feed their herds when the retail price of 50 kg of barley reached SR31 ($8.27).

Though local livestock farmers prefer barley as a feed alternative, future barley consumption and total imports depend on the ability of importers to supply barley at a reasonable price compared to other feed alternatives such as forage and feed concentrates. In the past few years, the government's generous barley subsidy program has made the grain the most competitive feed alternative resulting in a drastic reduction in the demand for locally grown alfalfa which in turn forced most farmers to exit alfalfa and other forage production. Currently, most alfalfa is grown and used by dairy farmers. But this situation is forecast to change if the retail price for 50 kg of barley exceeds the price of a comparable bale of alfalfa. However, major increase in forage production is unlikely in the near future due to the recent the government's water conservation policy, that aims to eliminate or sharply reduce crop production such as alfalfa that requires high usage of non-renewable aquifer water. To help meet the water conservation goal, the government halted local barley production this year and banned exports of locally grown alfalfa in October of 2001.

Major importers believe that the government decision to change the barley subsidy scheme came at the right time to reflect the declining world barley price. Increased barley output in the EU and Ukraine has drastically reduced the C&F price from an average of $180 per metric ton in June to $107 per metric ton for barley purchased in July for early September arrivals. A further decline is expected in the world feed barley price in the next two months due mainly to increased production and reduced demand for feed barley in the EU. Saudi barley imports from Australia are forecast to sharply decline this year due to the lower barley production this crop season compared to last year. If the forecast for the lower barley prices holds true for next few months, the grain would remain the most competitive feed alternative in the Kingdom, resulting in an increase in barley imports estimated at about 500,000 metric tons for this marketing year. Saudi Arabia imported about seven million metric tons of barley last marketing year.

End of Report